FDIC State Profile

Fall 2005

Indiana

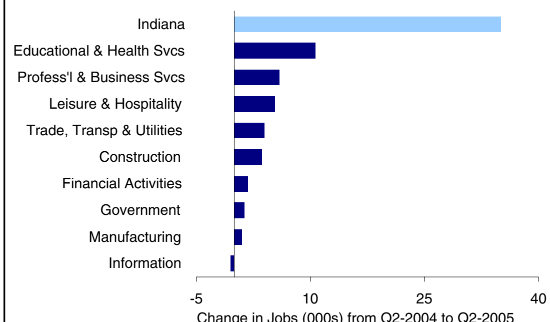
Indiana's second quarter job growth slowed but remained higher than neighboring states.

- Indiana posted year-over-year job growth of 1.2 percent in second quarter 2005, compared to 1.6 percent for the nation. All major job sectors experienced growth, with the exception of a small decline noted in the information sector (see Chart 1).
- Second quarter 2005 marked Indiana's sixth consecutive quarter of job gains, although most of the new growth came from hiring in relatively lower paying service-providing jobs.
- Indiana's manufacturing sector (19 percent of total payroll employment) added 1,000 jobs during the year-ending second quarter, marking this sector's fourth consecutive quarter of job gains.
- Indiana consumers quickly felt the effects of the recent Gulf Coast hurricanes as higher gas prices took a larger share of their paychecks. Should energy prices remain elevated, some energy-dependent manufacturers (especially auto producers and suppliers) may see profit margins squeezed; farmers may see higher harvest and shipping costs; and, ultimately, consumers may alter their spending and travel habits. Still, other industries associated with building materials and construction likely will see demand for their products increase as rebuilding efforts commence in the affected areas.
- The **Indianapolis** metro area (Indy) added 10,100 jobs from a year ago, or nearly one-third of the state's total employment growth. The majority of Indy's growth came from the retail trade, and leisure and hospitality sectors, while the number of manufacturing jobs remained essentially unchanged from the year-ago second quarter. The **Evansville** metro area posted a job gain of 1,400, its first quarterly year-over-year gain since fourth quarter 2002.

The gap in home price appreciation between Indiana and the nation continues to widen.

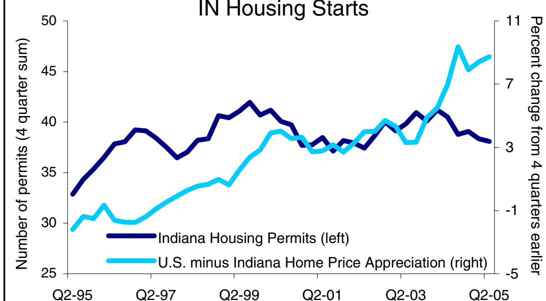
- Home prices in Indiana grew by only 4.7 percent from second quarter 2004 to second quarter 2005, compared with 13.4 percent for the nation. The difference between

Chart 1: All Major Sectors Experienced Job Gains in Indiana



Source: Bureau of Labor Statistics

Chart 2: The Difference between IN and U.S. Home Price Appreciation Grows amid Steady IN Housing Starts



Source: Office of Federal Housing Enterprise Oversight / Census Bureau

Table 1: High Loan-to-Value Mortgage Loans Significant for Indianapolis CSA

Period	Percent of Residential Mortgage Loans Closed with Loan-to-Price Ratio Over 90%	
	Indy CSA	U.S.
2004	30	18
1Q-05	27	18
2Q-05	20	16

Source: Federal Housing Finance Board

Note: Data obtained from a sample of loans home price appreciation in Indiana and the United States continues to widen amid steady housing starts (see Chart 2). Low population growth and a steady supply of housing starts contribute to the low rate of home price appreciation in the state. Indiana's population growth averaged 0.6 percent over the past five years, compared to a national level of 1 percent.

Household conditions are generally improving, but signs of strain still exist.

- Due in part to improved labor markets, Indiana per capita personal income growth improved from its second quarter 2001 low of 1.2 percent to 3.7 percent at second quarter 2005, but remained below the national growth rate of 5.5 percent.

- Foreclosures and bankruptcies remain high and above national levels. At first quarter 2005 the percentage of loans in foreclosure in Indiana was 2.9 percent compared to 1.1 percent at the national level.

- Over the past year, a relatively significant percentage of mortgage loans in the **Indianapolis-Anderson-Columbus** combined statistical area (CSA) had loan-to-value ratios of more than 90 percent (see Table 1). In addition, an estimated 28 percent[1] of loans originated in the Indy metro area in the first half of 2004 were piggyback loans[2].

Earnings performance improved slightly for Indiana community institutions.[3]

- Despite higher noninterest expense, return on assets (ROA) for the second quarter increased from the prior year quarter for Indiana community institutions, the first such year-over-year increase in more than eight quarters. The slight improvement was primarily from an increase in net interest income and a decrease in provision expenses (see Table 2).

- Improvement in the net interest margin at community institutions resulted in part from an increase in the yield on earning assets that exceeded the increase in the cost of funding earning assets. The loan-to-asset ratio climbed to 71.2 percent at second quarter 2005. The majority of loan growth during the past year came from the relatively higher yielding construction and nonresidential real estate loans. Noncore funding continued to increase as core deposits[4] to assets declined to 61.3 percent at second quarter 2005, the lowest level for at least the last decade.

- ROA for Indiana community institutions continues to be low relative to the national level due in part to a higher concentration of residential loans, which are typically lower yielding, and a somewhat lower level of core funding sources, which are typically less expensive.

Loan delinquencies increase, but asset quality indicators remain moderate for community institutions.

- Past-due loan rates for Indiana community institutions increased by 13 basis points from a year ago to 2.0 percent at second quarter 2005, the first such year-over-year increase in more than eight quarters. Most loan categories reflected small to moderate increases in past-due rates, while home equity delinquencies declined (see Chart 3).

- Net charge-off rates for Indiana community institution loans remained essentially unchanged at 0.3 percent at second quarter 2005.

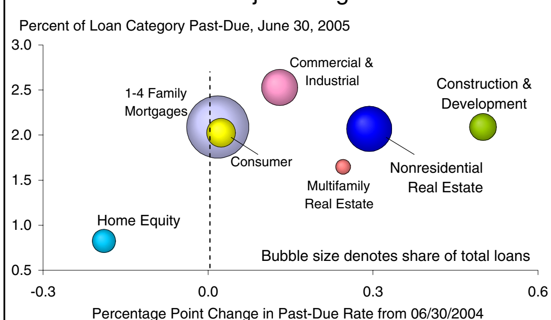
- Loan loss reserve coverage of noncurrent loans declined slightly to 122.1 percent at second quarter 2005.

Table 2: Profitability Improves Slightly as Net Interest Income Increases

Income statement contribution (percent of average assets)	3 months ended June 30		Percentage Point Change
	2004	2005	
Net Interest Income	3.29	3.35	0.06
Noninterest Income	0.79	0.79	0.00
Noninterest Expense	-2.68	-2.73	-0.05
Provision Expense	-0.23	-0.20	0.03
Security Gains & Losses	0.03	0.04	0.01
Pretax Net Income	1.20	1.25	0.05
Income Taxes	-0.35	-0.36	-0.01
Net Income (ROA)	0.85	0.89	0.04

Source: FDIC. Merger-adjusted data for Indiana's Community Institutions

Chart 3: Loan Delinquencies Increase for Most Major Categories



Source: FDIC. Merger-adjusted data for Indiana's Community Institutions

[1] Charles A. Calhoun, PhD, "The Hidden Risks of Piggyback Lending," June 2005. (Note: data based on a sample of loans).
[2] Piggyback loans typically involve first and second mortgages originated simultaneously to enable the borrower to receive a larger loan amount requiring a lower down payment.
[3] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.
[4] Core deposits are total deposits less brokered deposits, large time deposits, and foreign deposits.

Indiana at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	2.2%	1.3%	1.2%	-0.2%
Manufacturing (19%)	0.2%	1.2%	-0.1%	-0.1%	-2.7%
Other (non-manufacturing) Goods-Producing (5%)	2.3%	6.3%	3.5%	2.3%	-0.9%
Private Service-Producing (61%)	1.6%	2.5%	1.7%	1.6%	0.3%
Government (14%)	0.3%	0.8%	0.8%	0.8%	1.3%
Unemployment Rate (% of labor force)	5.1	5.6	5.1	5.2	5.3

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	4.3%	4.3%	5.1%	4.9%	3.7%
Single-Family Home Permits	-0.8%	-6.9%	-1.6%	-0.2%	2.4%
Multifamily Building Permits	-9.3%	-20.0%	-21.6%	-11.9%	-8.3%
Existing Home Sales	6.1%	4.6%	8.5%	8.4%	-3.8%
Home Price Index	4.7%	4.2%	3.0%	3.4%	2.9%
Bankruptcy Filings per 1000 people (quarterly annualized level)	10.47	8.38	9.50	8.76	9.00

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	193	193	203	197	206
Total Assets (in millions)	103,420	101,842	114,469	102,739	117,429
New Institutions (# < 3 years)	3	2	2	2	4
Subchapter S Institutions	16	16	15	15	16

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.89	1.82	1.91	2.23	2.13
ALLL/Total Loans (median %)	1.09	1.12	1.14	1.11	1.17
ALLL/Noncurrent Loans (median multiple)	1.51	1.56	1.54	1.40	1.68
Net Loan Losses / Total Loans (median %)	0.07	0.06	0.08	0.14	0.16

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.63	9.57	9.51	9.51	9.59
Return on Assets (median %)	0.85	0.78	0.83	0.79	0.90
Pretax Return on Assets (median %)	1.22	1.08	1.16	1.11	1.26
Net Interest Margin (median %)	3.72	3.62	3.65	3.66	3.73
Yield on Earning Assets (median %)	5.80	5.60	5.52	5.57	5.86
Cost of Funding Earning Assets (median %)	2.12	1.91	1.73	1.79	2.09
Provisions to Avg. Assets (median %)	0.10	0.09	0.10	0.13	0.16
Noninterest Income to Avg. Assets (median %)	0.69	0.61	0.69	0.68	0.72
Overhead to Avg. Assets (median %)	2.76	2.77	2.78	2.78	2.76

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	70.3	70.6	69.3	69.8	68.2
Noncore Funding to Assets (median %)	23.9	22.0	22.6	22.4	21.9
Long-term Assets to Assets (median %, call filers)	21.7	21.3	23.0	22.0	22.7
Brokered Deposits (number of institutions)	63	63	56	64	52
Brokered Deposits to Assets (median % for those above)	4.7	4.3	4.2	4.5	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	66.4	63.3	63.8	63.9	63.0
Commercial Real Estate	167.3	167.8	152.9	161.8	147.8
Construction & Development	30.0	28.5	23.4	26.4	21.6
Multifamily Residential Real Estate	5.8	5.6	5.0	5.3	4.7
Nonresidential Real Estate	119.4	122.3	123.9	121.0	113.6
Residential Real Estate	297.8	303.0	301.6	300.9	308.2
Consumer	38.9	39.3	44.0	41.2	47.6
Agriculture	31.7	27.2	30.0	27.8	30.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Indianapolis, IN	54	23,609	< $250 million	130 (67.4%)
Evansville, IN-KY	20	4,851	$250 million to $1 billion	47 (24.4%)
Fort Wayne, IN	23	4,521	$1 billion to $10 billion	15 (7.8%)
South Bend-Mishawaka, IN-MI	15	3,215	> $10 billion	1 (0.5%)
Columbus, IN	8	2,404		